1890.

MERCANTILE INSURANCE

AS A PREVENTIVE OF

BUSINESS DEMORALIZATION

AND

BAD DEBTS.

Address:

BY HENRY LYE,

ACCOUNTANT,

SPECIAL LIQUIDATOR CENTRAL BANK OF CANADA.

DELIVERED AT A PUBLIC MEETING UNDER THE AUSPICES

—OF THE—

INSTITUTE OF CHARTERED ACCOUNTANTS OF ONTARIO,

ON WEDNESDAY, APRIL 9TH, 1890.

TORONTO

PRINTED BY TROUT & TODD, 72 & 74 CHURCH ST.

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OF

Chartered Accountants of Ontario.

Incorporated by Statute of Ontario, 46 Vic.. Cap. 64.

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MERCANTILE INSURANCE.

When I promised to deliver this address, I understood that it was to be before the more familiar, and possibly more sympathetic, audience composed of the members of the Institute of Accountants.

I was not then aware that I was to be honored by so influential an audience, therefore I must crave your indulgence in every way, although I have such courage of my convictions as makes me hope that you will, almost, if not altogether, become persuaded of the practicability and the advisability of Mercantile Insurance.

I may say that, in the open meetings of the Institute of Accountants, it is usual for some member to introduce by address or essay some principle or adaptation for general discussion, and as it is understood that the discussion will often be of greater value than the address, it is essential that the address be neither too long nor too wearisome. Hence my endeavour to be as brief and to be as little "dry" as may be possible with such a subject as "Insurance" in any of its forms.

Every new idea of justice or equity, every advance from anarchy towards order, every amelioration of the conditions of society by the application of humane principles, has been stigmatised as an impracticable innovation, and assailed as the work of a fanatic, a destroyer, or an enemy of his fellow men.

There are eddies and cross-currents in the stream of progress, so that it is "by slow degrees, by more and more," men advance in civilization.

Any new idea of personal restraint or of sacrifice of individual liberty—or of self-denial for the common weal—is naturally repugnant to the human race. We are generally

profuse of law and order and discipline for other people, but if any attempt is made to restrain ourselves from pernicious courses, we loudly denounce our disturbers as tyrants or socialists.

Man strives to fight the battle of life unaided and unimpeded, desiring only independence and fair play. "A fair field and no favor" is a man's motto. Men naturally rebel against innovation, restriction, or outside control in respect of their own ideas or actions or business; yet we do, occasionally, find them proposing doses of common sense for the guidance of other people; as for instance, the manifesto of one of our Boards of Trade in respect to compulsory fire insurance by retail traders, the spirit of which was near akin to Bismarck's compulsory insurance of workmen against physical disability by accident or old age, or to the compulsory education of young children as an assurance against crime and incompetence, the natural results of ignorance—all being very wise measures in their way, but not beginning "at home."

History abounds with instances of the inconsistencies of mankind; human slavery had for its defenders as a beneficent institution the men who were foremost in upholding the doctrine of State rights. The promulgators of the doctrine of equality meant it in the sense of the Irishman, "One man is as good as another, and a great deal better." So we need not be dismayed by any of the peculiarities of even business men, which we may have to consider and combat; nor especially of those which prevent co-operation for the common benefit; because we may find numerous examples of great nations who have fallen an easy prey to their enemies, not because they were too weak to defend themselves, but because of their indifference to the fate of their fellows. Should we not learn the lessons taught by history and apply them in our daily business? Do we not know those taught by Greece,

> "Clime of the unforgotten brave,
> Whose land, from plain to mountain cave,
> Was freedom's home, or glory's grave!"

Or have we forgotten,

> "Rome's great and glorious dead
> Though we have heard so oft,
> And read their histories."

Like the herd of bulls in the fable, the states of Greece were one by one destroyed, despite the innumerable instances of personal bravery, of genius and of devotion to the public welfare, on the part of Greeks famous in history and in song, whilst the *amor patriæ* of the Romans, inducing co-operation for the common weal, not only saved them from destruction in times of sore straits, but made them masters of the whole world.

The fiercest wolf will wait for his victim until the flock is scattered, being afraid of a few feeble sheep in the day time, because they co-operate in presenting a common front to the enemy.

You will perceive that I have a salutary fear of the criticisms which my persistance in the advocacy of a scheme of insurance against bad debts, may draw forth; deprecating the possible verdict of hare-brain, or wild-cat, or impracticability, until the whole matter has been fully considered.

To ridicule the proposition of a scheme of insurance against losses by bad debts because it is not in vogue, is to assert that we have reached the limit of progress in the perfection of business methods, notwithstanding the army of sheriff's officers, lawyers, assignees and trustees which are found necessary to the present conduct of mercantile affairs. We may be asked: Have we not rich merchants? Have we not wise legislators? Have we not Boards of Trade whose powers and influence in mercantile matters are almost unlimited? Granting all these, do we not know that, however rich, or wise, or powerful a people may become, they assuredly come short of their possibilities, gradually or quickly falling into decay and relapsing into comparative barbarism, unless they are blessed with the conservative forces of Christianity, and not only comprehend, but put in practice, that precept which enjoins the bearing of one another's burdens, the very essence and the vital principle of all true insurance organizations.

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Need I instance Phœnicia, once the mistress of the mercantile marine of the world? Or Venice, the Queen of the Adriatic, which controlled by caravan and vessel the trade of the Indies? Or—if we want an example of boundless riches and boundless power with unlimited opportunities—Spain, the proud mistress of the New World, with its silver and gold of an extent which we are unable to comprehend, with navigators as bold as Columbus, or adventurers as audacious as Pizarro or Cortez? We may rest assured that neither natural position, nor riches, nor learning, nor military genius, nor naval power, give assurance of continuous prosperity. Had not our own city of Quebec all these? yet Montreal dug a way to the sea and left Quebec almost a desolation. Had not Boston and Philadelphia all these? yet New York carried off all their commerce and most of their trade, so that they are to-day mere suburbs tributary to the City of the Hudson. Therefore we must look further and deeper for the cause and stay of mercantile or commercial prosperity and stability.

"Let us rest and be thankful" was the complacent observation of Lord John Russell, after the passing of a Bill which was but a step in the long march of Political Reform. He thought the height of political progress was attained, but his measure is ages behind the present. So, however much we may congratulate ourselves on our accomplishments, whilst we may be "thankful" we may not "rest."

> "Not in vain the distance beacons,
> Forward—forward let us range,
> Let the great world spin forever
> Down the ringing grooves of change."

False profession and fraudulent practice may retard human progress but cannot wholly prevent it. Abuses may discredit, vested interests may oppose, old fogyism may bar the way, cynics may sneer, agnosticism may be incredulous, and absolute ignorance may be hard to overcome, but in spite of all, the glorious fact remains—

> "THE WORLD DO MOVE."
> —*Vide, a celebrated coloured astronomer.*

Many an age passed before men admitted the equity of con-

tribution by the ship and cargo for loss by jettison. In our own times the practice of Life Insurance has been looked upon as an impious defiance of Providence; the money paid on the death of the insured characterized as "blood money" and its recipients as little less than ghouls in human form—benefitting by the death of those whose life was spent in act and thought for their welfare and happiness. I think it no shame to take some credit to myself for having by precept, example, and publication assisted in a better understanding of the principles of life insurance, and in the suggestion of wider fields of usefulness for one of the most beneficent of human institutions.

That Mercantile Insurance is "something new under the sun" may not be asserted until the ruins of the ancient cities, whose memorials were buried in them, have been fully explored without finding that, even in their days, life insurance was denounced as leading to murder and suicide; fire insurance as tending to arson; guarantee insurance as the cause of embezzlement; accident insurance as resulting in collision and recklessness; that boilers never exploded until the Boiler Insurance Company was in active operation; that drunkenness and stone throwing had their origin in plate glass insurance; that lightning, hail, and tornados had their origin in an insurance office, and that Mercantile Insurance made necessary the enactment of insolvency legislation.

In answer to every form of objection, and to every philosopher from the time of Solomon down to the present evening, I confidently assert that Mercantile Insurance against bad debts is now, and always has been, in vogue amongst the mercantile community—yea, that it is, and always has been, *compulsory*; and further, that the effect of every merchant being his own insurer against loss by bad debts is, and always has been, such as would result from every man being his own insurer against fire, or every man being his own lawyer. But how can a practice be in vogue, voluntarily or by compulsion, yet no one have any knowledge of the matter and everybody be opposed to its introduction?

Let us consider for a few moments. Does any trader pretend that he can avoid bad debts by any exercise of

prescience or caution? Does not the wisest merchant, when he is establishing the prices of goods to be sold on credit, add to the cost—one set of percentages for freight and duty, one for expenses, one for losses by bad debts, and one for profit? Is not the "percentage for losses" practically the insurance premium LEVIED UPON EVERY PURCHASER, although the merchant does not imagine the possibility of losing by any considerable proportion of his customers? Does he not make a "discount for cash" of a much larger percentage than the simple interest on the bank discount; does not the difference really consist of the premium for "insurance against bad debts," which a cash payment would make unnecessary? How, then, can it be stated that Mercantile Insurance is not in daily practice?

Let us follow the course of the merchant who knows his business and utilizes his knowledge to the utmost extent in his daily transactions, yet perforce, must sell goods on credit if he sells goods at all. Let us follow his routine, giving him credit for extreme caution at every step.

A new customer comes to his office: he satisfies himself as to his personal habits; gets a report from the mercantile agency; has the fire insurance policies assigned to himself; insists upon promissory notes well endorsed for the amount of every invoice. Is he secured from loss by all this caution? He would be assured of the loss of his customer if he made all these stipulations, because other merchants do business more loosely; but, if he retains the customer, he has to face the contingencies of a change of habits such as too frequently occurs when a man becomes elated by prosperity or depressed by adversity. He finds that his mercantile agency report has been inspired by friendship for the customer, or by some one who desires to realize an old debt out of the proceeds of the new stock. He learns, when too late, that the fire insurance policies have not been renewed or have been vitiated by further insurance without notice, or that the customer has not kept such books of account as enable him to establish his loss, or has committed some fraud or foolishness preventing the payments. Then he falls back upon the "endorser" to find prior mortgages or other hindrances to realization from

him. Are any of these occurrences impossible, improbable, or infrequent? I trow not! The most wise, the most cautious merchant has to provide for losses caused by them, and, for want of a mercantile insurance company, has to be his own insurer. If his capital is large in proportion to his business, or if he begins his business career contemporaneously with the commencement of an era of good times, he may succeed; but if not, he furnishes one of the many illustrations of the saying—"that of every one hundred men who enter mercantile life, ninety and nine are failures."

Let us look at the general conduct of retail business affairs under the present system, premising every possible good quality of head and heart on the part of the retail merchant; with ample means, experience, good management, forethought, care, and every human attribute of a good business man. Can HE command success? However wisely he may buy, is he not likely to be encumbered by a stock unsaleable by reason of an adverse season? Is he not liable to be surrounded on every side by bankrupt stocks, pedlars, and auctions? Does it not appear to be the special study of some wholesale merchants to encourage reckless trading, extravagance, and dishonesty, by giving credit and granting compromises, apparently for the very purpose of driving out of business those who intend to pay in full for the goods they buy? Is not every merchant liable to loss by theft, burglary, conflagration, flood, or other contingency against which he cannot provide, however careful he may be? Go to any city, town, or village on this continent and calculate the chances of success to the honest retail merchant; consult the annals of the place to learn how many the failures and how few the successes in proportion to the numbers of adventurers of honest intent and intelligent conduct. Observe how much more frequent are the visits of drummers than those of profit-bringing customers; how business is overdone and demoralized, and then try to show that there is no need for a system of mercantile insurance by which many of these abuses would be abolished, and the business of the country placed on such a footing as would enable capital and good management to hope for adequate return.

In order to arrive at an appreciation of the means by which we would prevent the demoralization of business and losses from bad debts, we must fully understand the principles of insurance, not only in the abstract, or in a sentimental light, but also as an intelligent business method of minimising the effects of unavoidable disasters.

True insurance is based upon the average of contingencies. By it the losses of the few are borne by the many, so that no one may be overwhelmed by any calamity; it considers the causes of losses and provides such safeguards as diminish their frequency and their magnitude; it investigates every claim and prevents the success of frauds. By insurance are mitigated the miseries which otherwise would result from accident and storm on land and sea; from dishonesty, sickness, fire, flood, malice, mischance, and death. By its aid, the active operation of the principles of Christianity in the bearing of one another's burdens, prevents the growth of that form of socialism which tends to anarchy and destruction.

The more extended its operations and the more strict its practice, the more beneficial are its results; why, then, should we hesitate at its adoption of new forms, its introduction to new fields, or its adaptation to new uses, so long as we are careful of its principles? Have we not a very notable encouragement in the proposal of the chartered banks to insure the redemption of each other's bank notes?

As to its basis. Are the statistics of mercantile disasters more difficult of arrangement for insurance purposes than are those of fires, or lightning, or explosion, or accident, or death? Has not commerce its diseases and epidemics, its fevers and agues? Do you not count upon the "turning of the wheel" by which general success and general depression succeed each other as do day and night? Do you not use the terms the "noonday of prosperity" or the "midnight of adversity?" Is not the proverb "the darkest hour precedes the dawn" pertinent to mercantile affairs? Are not the alternations of prosperity and adversity, of poor times and hard times, almost as regular as those of the seasons, or of day and night? Is not a financial panic akin to a visit of the cholera; is not the

dulness of trade its typhoid fever? Do not our leading bankers and the presidents of boards of trade pose as the chief physicians of commerce, and periodically prescribe for its ailments? Are they prophets or are they mere charlatans? If the former, then we must confess that by experience and forethought we can do something towards preventing calamity. Would that many of our institutions and traders could consult a disinterested and reliable physician "in time."

Well has the poet asked—

> "Could experience, ten times thine,
> Pain from Being disentwine?"

No, nor can all the experience and forethought of the whole world prevent failures and losses; consequently we must consider the second principle of true insurance by which the inevitable losses of the few are borne by the many. This, of course, is by each one paying such a rate of premium as will yield sufficient income to defray the expenses and pay the losses.

Suppose that we utilize the combined experiences of merchants, mercantile agencies, and trustees in the compilation of comparative statements of

1st. Defaulters to traders (in number).

2nd. Losses to sales (in amounts).

3rd. Liabilities of defaulters to realization from their estates.

4th. Cost prices of bankrupt stocks to proceeds of their sale.

5th. Cost of collection and realization of insolvent estates,

we shall then have the data for such premium charges as will enable our business men to be saved from the greater anxieties of mercantile life.

Just here I wish you to rid yourselves of the thought that the assignee holds the sole key to the problem of rates.

Men are not, as a general rule, either incompetent or dishonest. More men fail from circumstances beyond their own control than by extravagance, recklessness, or any other personal misconduct. To illustrate my meaning, I must go

to that branch of insurance with which all are familiar, viz., that against losses by fire. Some adjusters start out with the notion that every fire is from deliberate arson, and every claim an attempt to defraud. Observation and experience do in time teach them that 50 per cent. of insurable persons either have no insurance at all, or are insured for a comparatively small proportion of the value at risk. Of every thousand insured persons, one will have a fire. Of every thousand persons who have fires, not more than one will have committed arson, and not more than one hundred will present wilfully dishonest claims, unless they know that they will meet a Huckster instead of an Adjuster; so that, with reasonable care, out of a million people you will have only one who will perpetrate arson for gain, and of every thousand, only one will commit deliberate fraud.

This carries me from the second proposition to the fourth, because, by neglecting the careful investigation of every claim, the insurance companies can soon make fraud so easy and so profitable as to induce people to adopt the commission of arson as a profession. But by the employment of competent, conscientious adjusters, they can make successful fraud so difficult as to be profitless. My intention, however, was more particularly to draw your attention to the fact that the careful investigation of all classes of claims gives the intelligent investigator information as to the causes of losses, which, utilized in the inspection of risks, enables the "stitch in time." Give me ten first class men, with a hundred thousand dollars a year for their salaries and expenses, and authority to insist upon safety precautions which will neither add to the expense of business nor diminish either its volume or its profit, and I would reduce the fire losses in Canada by one million of dollars a year.

So it would be with investigation of mercantile losses and inspection of mercantile risks; therefore we should, by mercantile insurance, make one step towards obtaining a fair field for legitimate traders. Then why should we continue to discourage honest men by a system against which all careful observers protest, and which fills the first few pages of every issue of our mercantile journals with such dreary news?

The Mercantile Insurance Co. would, at the outset, require from the applicants such informations as would warrant the transactions. These "informations" would be a combination of such as are furnished to the different insurance companies and the mercantile agencies. The questions would readily suggest themselves. They might not be uniform, as locality or circumstances might cause their variation. The contract would be a combination of guarantee, supervision and subrogation; it could not be cancelled in prejudice of the vendor of the goods. It might sometimes be necessary to exercise the same powers as could have been exercised by the vendor if the purchaser had been found to be wasting or misusing the estate—or if the goods had been obtained by fraud upon the vendor or company. You will perceive, therefore, that the idea embraces all the safeguards which are required in mercantile transactions. I do not need the reminder that such safeguards would be refused to any merchant, or that any such demands would be scornfully denied to him, under the present regime, but so were the informations now given to the present insurance companies denied in many instances, until the different forms of insurance became recognised as business necessities.

The classes of mercantile insurance would be various, the field would be continuously extending.

There would be the guarantee for the payment for special purchases.

The guarantee for a fixed line of credit.

The guarantee for deferred payments in the following events, viz.:

An overstock by reason of a bad season.

The death of a partner.

The dissolution of a partnership.

Transfer of assets.

The liquidation of an estate.

The applications for insurance would always be from the debtor. The creditor would have no responsibility.

The principle of subrogation would be incorporated in the policies.

I am quite prepared to admit that some wholesale mer-

cantile houses would continue to be their own insurers, as well as that there might occasionally be some friction in the working—that when there are a number of such companies, as there assuredly will be, they will exhibit the usual characteristics of competition, and that there will be ups and downs until the practice is settled—but are not many men their own insurers in spite of their knowledge of the foolishness of their conduct, or have not these been in the experience of every class of insurance companies, or is there anything in the prospect to prevent the successful operation of mercantile insurance?

As to rates of premium—these would be based upon averages of experiences. As a matter of safety they might for a time be higher than the outcome might justify, but, as a corrective, the principle of "participation" by scrip dividends, as practised by the Hand-in-Hand, Continental, and other fire insurance companies, would be adopted. I venture to say that in a very few years after the inauguration of the first mercantile insurance company, however dubious the mercantile world might be to begin with, and however unpromising the first year or two might be, we should find that the merchant who neglected to protect himself by mercantile policies, would be counted to be as reckless and unbusiness-like as is the man who does not protect himself, by insurance, against boiler explosion, plate glass breakage, or fire or embezzlement, or who does not provide for those he pretends to love, by means of life insurance, or for the wants of his own old age by means of endowment policies.

If a mercantile insurance company had a number of risks in one locality, they, most assuredly, would not assist in the ruin of their clients by promoting the sale of goods under such prices as would allow a reasonable profit to be made by all; but would devise such a system of central storage, re-packing and sale, as would enable their disposal without the present baleful effects, which are as destructive of legitimate trading as conflagrations are to property, or as epidemic diseases are to health and life.

I therefore respectfully submit that mercantile insurance is not a wild, impracticable idea, but one worthy of your most

earnest consideration—one from which this Institute can gather fresh laurels, one from which the members may reasonably expect to reap an extension of their fields of operation, and one from which will flow benefits to the country at large, as notable as from any of the forms of insurance now in recognized operation.

Again I say, let us not imagine that the majority of men are dishonest or reckless, or are of necessity failures. There are many men simply "out of place," they are fixed by circumstances in such positions as prevent success, whilst a little aid, or a little advice from a disinterested party, or one whose first interest would be their well-doing, might give them a "coigne of vantage" in the battle of life, although for the immediate present they have missed that tide which "taken at its flood leads on to fortune."

I have purposely refrained from statistics, being more desirous of your consideration of the principles involved, than in the presentation of elaborate masses of figures, which would weary you to no immediate purpose. If we can divest the idea of its "red-rag" we may reasonably expect its examination without prejudice; I feel quite confident that such an examination would cause the inauguration of a Mercantile Insurance Company which would be an honor to its founders, a profit to its shareholders, and a boon to the mercantile community.